

Message Text

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USLO RIYADH
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E.O. 11652: N/A
TAGS: BTIO, BENC, SA
SUBJ: INVESTMENT AND CONTRACT OPPORTUNITY IN ROAD TRANSPORTATION
FOR SAUDI ARABIA

REF: USREP MESSAGE NO 609

1. THE EMBASSY REPEATS THE FOLLOWING USREP RIYADH MESSAGE TO COMMERCE
FOR POSSIBLE INTEREST AND ACTION RELATING TO AN INVESTMENT OPPORTUNITY

WITH A GUARANTEED 15 PERCENT RETURN AND A SEPARATE CONTRACT WITH THE
SAUDI MINISTRY OF COMMUNICATIONS FOR SERVICES CONNECTED WITH PUBLIC
TRANSPORT.

2. QUOTE SUBJ: SAG REQUEST FOR ASSISTANCE IN TRANSPORTATION FIELD
REF: USREP 598

1. FOLLOWING UP ASSISTANT SECRETARY DAVENPORT'S DISCUSSIONS REPORTED
REFTEL, USREP AND HIGHWAY OFFICIALS DISCUSSED SAG INTEREST IN FURTHER
ASSISTANCE IN TRANSPORTATION FIELD WITH DR. MUHIUDDINE AL-KAYYAL,
DEPUTY MINISTER FOR TRANSPORTATION, MINISTRY OF COMMUNICATIONS
ON APRIL 18, DR. AL-KAYYAL EXPLAINED ACTIONS TAKEN BY SAG TO
ESTABLISH A NATIONAL BUS TRANSPORTATION SYSTEM AND OUTLINED AREAS
IN WHICH HE WOULD LIKE JOINT COMMISSION ASSISTANCE.

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2. HE SUMMARIZED CONCIL OF MINISTERS DECISION OF MARCH 20 WHICH
HE SAID HAD BEEN RECENTLY ISSUED AS A ROYAL DECREE (WE ATTEMPTING
TO GET TEXT) WHICH SETS FORTH CAPITAL STRUCTURE AND OTHER PROVISIONS
OF A JOINT VENTURE COMPANY (CALLED THE GENERAL TRANSPORTATION COMPANY
)
WHICH WILL BE GIVEN A MONOPY CONCESSION FOR NATIONWIDE AND URBAN

MASS TRANSPORTATION. CAPITAL STRUCTURE WILL BE AS FOLLOWS:

/ PRECENT

SAG / 25

PRIVATE SAUDI FOUNDERS / 25

SOLT TO SAUDI PUBLIC / 40

FOREIGN COMPANY WHICH WILL HAVE

MANAGEMENT AND OPERATIONAL CONTRACT / 10

TOTAL / 100

3. AMOUNT OF INITIAL CAPITALIZATION IS APPARENTLY NOT YET FIXED ALTHOUGH FIGURE OF SR 300 MILLION HAS BEEN MENTIONED. ACCORDING TO DR. AL-KAYYAL, SEVERAL OPTIONS ARE BEFORE THE MINISTRY. INCLUDING INCREASING CAPITALIZATION TO SR 1 BILLION. GOVERNMENT LOANS OF SR 4 BILLION OVER THREE-YEAR PERIOD ARE ENVISAGED IN ADDITION TO SUBSTANTIAL OPERATIONAL SUBSIDIES TO KEEP TICKET PRICES LOW. SHAREHOLDERS ARE GUARANTEED A 15 PERCENT RETURN ON CAPITAL ANNUALLY UNDER TERMS OF THE ROYAL DECREE.

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4. RE LIST OF U.S. FIRMS REQUESTED BY SAG, DR. AL-KAYYAL SAID COMPANIES FORM ALL OVER THE WORLD, INCLUDING GREYHOUND OF U.S. AND OF CANADA, HAD EXPRESSED INTEREST IN MANAGEMENT AND OPERATION CONTRACT BUT NONE HAD OFFERED EQUITY INVESTMENT REQUIRED BY THE ROYAL DECREE. HE SAID A LIST WOULD BE USEFUL ONLY IF THE COMPANIES WERE WILLING TO MRYE THE REQUIRED CAPITAL INVESTMENT.

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5. IN ADDITION TO FOREIGN FIRM TO PARTICIPATE IN JOINT VENTURE, DR. AL-KAYYAL WISHES TO HAVE A SEPARATE CONTRACT BETWEEN THE MINISTRY AND A FOREIGN FIRM TO SUPERVISE THE BUS COMPANY, INCLUDING MANAGERIAL, FINANCIAL, TECHNICAL AND OTHER ASPECTS, SINCE HIS LIMITED STAFF WILL BE UNABLE TO OVERSEE ADEQUATELY THE EXTENSIVE ACTIVITIES OF THE BUS COMPANY. WHILE HE DID NOT REQUEST NAMES OF U.S. FIRMS INTEREST IN SUCH A CONTRACT, WE BELIEVE HE WOULD WELCOME SUGGESTIONS.

6. AL-KAYYAL THEN OUTLINED HIS NEED FOR A SHORT - TERM SPECIALIST OR SPECIALISTS UNDER THE JOINT COMMISSION WHO WOULD WORK WITH HIM AND HIS STAFF IN THE INITAL PLANNING, ORGANIZING AND START UP OF THE BUS SYSTEM, THE EXPERT WOULD REVIEW AND REFINE PLANS FOR THE SYSTEMS (NUMBER OF BUSES, ROUTES, AREAS SERVED, ETC). AND THE DETAILED PROVISIONS OF THE CONCESSION SETTING FORTH THE FINANCIAL, LEGAL AND OTHER OBLIGATIONS ASSUMED BY THE COMPANY AND THE GOVERNMENT. HE WOULD LIKE TOHAVE THE SPECIALIST(S) WORK IN THE MINSTRY UNTIL THE COMPANY IS ESTABLISHED, EXPECTED TO BE A MINIMUM OF THREE MONTHS. SINCE PLANNING FOR THE SYSTEM IS ALREADY UNDERWAY, THE MINISTRY WOULD LIKE THE SPECIALIST (S) HERE AT THE EARLIEST POSSIBLE DATE.

7. RE OTHER TECHNICAL COOPERATION UNDER JOINT COMMISSION FOR HIS

OFFICE, DR. AL-KAYYAL SAID HE WOULD LIKE ASSISTANCE IN THE FIELD OF MANAGEMENT, ORGANIZATION AND PERSONNEL SIMILAR TO HIGHWAY TEAM.. INITIALLY THIS WOULD INVOLVE INTERVIEWING KEY EMPLOYEES, ANALYZING ORGANIZATIONAL RELATIONSHIPS AND DREWAING UP POSITION DESCRIPTIONS. NEXT STEP WOULD BE TO WORK WITH DEPUTY MINISTER ON RECOMMENDATIONS FOR ORGANIZATIONAL DEVELOPMENT, PERSONNEL, ETC., DR. AL-KAYYAL HOPED THE SPECIALIST (S) ASSIGNED TO ADVISE ON ESTABLISHMENT OF BUS SYSTEM WOULD BE ABLE TO UNDERTAKE INITIAL WORK IN THIS AREA.

8. WOULD APPRECIATE WASHINGTON COMMENTS ON POSSIBILITY OF PROVIDING ASSISTANCE REQUESTED BY SAG SO THAT WE CAN DISCUSS SAG REQUEST IN MORE DETAILS WITH DEPUTY MINISTER AL-KAYYAL.
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